THE EXPORTATION

OF

BRITISH CAPITAL

BY

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By ERNEST EVAN SPICER, F.C.A.

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Introduction.

A word or two by way of introduction to the subject of this paper may not be out of place, for there are many, even amongst professional accountants, who are unable to consider a question of economic interest without confusing the issue by the introduction of party politics, thereby possibly warping their better judgment and weakening their arguments.

Let me commence, therefore, by stating that this is not a political lecture in the ordinary sense of the term, but an attempt to explain briefly and concisely the meaning of, and the necessity for, the exportation of capital.

People who, without thinking, accept as facts all that they hear, are apt to misunderstand terms such as "exportation of capital," and to imagine that gold or the necessaries of life, or some of the materials required for the carrying on of our home trade, are being spirited in some mysterious manner from our shores owing to the actions or utterances of some one or other of our leading statesmen. And if a shadow of doubt is exhibited by some possibly better informed individual, they will clinch the argument by pointing—

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(1) To Mr. Jones, who sold out at the time of the Boer war when the income-tax was 1s. 3d. in the £, and who reinvested in German securities, thereby reducing the wealth of the State; or

(2) To the Japanese 6 per cent. loan, which was raised in this country by our Eastern allies for the purpose of prosecuting a war with Russia, and used by them chiefly in the purchase of war materials, possibly made in Germany.

And how convincing is their logic. One is reminded of the Athenian gentleman, who found himself a defendant in the Law Courts, and who sought the help and advice of Lysias, the eminent lawyer of the day. The legal gentleman listened to the facts, and subsequently wrote out for his client a defence to the action. The Athenian read the defence, which he pronounced excellent; and forthwith summoning his wife, read it to her. The second reading, however, did not please our friend as much as the first, and so, calling his eldest son, he read it again for the third time. The third reading still further disquieted him, and so, putting on his hat and whistling for a hansom, he drove to the lawyer's chambers, and explained to him that although at first he thought the defence was good, a second reading convinced him that it was poor, and a third reading left him with only one thought in his head, which was that the whole argument was drivel.

Lysias remained quite calm, and merely observed that the Judge and jury would only hear it once.

The trouble in dealing with the subject of the exportation of capital is that people will only think about it once, and so the illustrations of Mr. Jones and the Japanese 6 per cent. loan hold good, and continue to attract fresh converts.

But let us think twice. Has Mr. Jones lessened the wealth of the nation by his action? He says he has, and apologises for it by saying that he did it in self-defence.

But has he really done so? I hope to convince you that Mr. Jones has done nothing of the sort, and that the Japanese loan provided an excellent investment for the surplus capital and profits of the British public.

We are, as Napoleon said, a nation of shopkeepers. Our capital is invested in our business, and yields substantial profits. That capital is partly fixed and partly circulating. The fixed capital we cannot export, even if we wish to do so, and the circulating capital remains in the business just so long as it earns as great or a greater rate of interest than could be earned by investing it elsewhere.

When there is a surplus of circulating capital, such surplus is invested abroad, together with the profit over and above what is required for further capitalisation in our business. The capital thus invested abroad enables new industries to be developed, promotes civilisation, opens up new lands for the surplus population, and benefits both the country finding the capital and the world in general.

Reduce the proposition to an absurdity and the whole matter becomes clearer. Imagine each nation investing the whole of its capital in its own country. We should then find one nation with the requisite skill, labour, and capital at hand ready to develop the world's resources, but prevented from so doing by lack of raw material. Another nation would occupy a land rich in natural wealth, but would be prevented by lack of enterprise or education or capital from developing nature's gifts to the full.

Would such conditions tend to develop the wealth of nations? Surely it is obvious that the nation with capital should invest a portion of its surplus wealth in helping to develop the other country, thus adding to its own wealth and to the wealth of the whole world. And this Great Britain has done, is doing, and will continue to do so long as she wishes to remain the leading power in the world.

The Impossibility of Exporting Fixed Capital.

It is a very clear proposition that fixed capital cannot be exported. Land, buildings, railways, canals, docks, fixed plant and machinery are not capable of transhipment for the use of other countries, so that a person who holds an interest in assets representing fixed capital is not able by a single transaction to invest his capital abroad. To do so, he must first find a purchaser for his fixed assets, and by means of a sale turn his fixed capital into circulating capital. Thus it becomes evident that any capital which is exported must necessarily be circulating capital.

Capital Exported is a Surplus over and above Home Requirements.

When the demand for capital abroad is satisfied in whole or part by means of a loan raised by this country, it is perhaps thought that the result is to create a deficiency in the circulating capital of the country, to starve home industry and enterprise, and to restrict labour.

As a matter of fact a deficiency in the circulating capital of the country is not likely to be created. It must be remembered that there is always a floating margin of capital seeking remunerative investment, and it is upon this margin that any deficit must first be demonstrated.

To illustrate this it is obvious that if A., a tradesman, has £3,000 locked up in book debts and stock, he is not going to realise these by a forced sale for the purpose of investing in foreign stocks. Even if he is making a loss in his business a forced sale of assets would be disastrous to him, and if he is making a profit the return is probably greater than the yield of the foreign investment.

Industry and enterprise, as is explained later, are not starved by foreign investments; for if a diversion of capital is temporarily effective on the floating margin, legitimate enterprise will obtain its capital from the realisation of investments, or by raising money on loan. If money is raised on loan in such circumstances the rate

of interest will be higher than if there had not been a depletion of floating capital; and if there is great stringency in the money rates a high bank rate will result, which, being effective as the market rate of interest, will tend to attract capital to this country, and so remedy the deficiency originally created.

This extreme position is, however, only created when the exportation of capital involves an export of gold, which is not necessarily brought about by over-investment in foreign securities, but by the general relation between this and other countries on the point of the balance of indebtedness.

It may be taken for granted, then, that when capital is exported it is either because there is an actual available surplus of capital here, or because the earning power of that capital (so far as it is a reduction of the margin of floating capital) is greater at the point to which it is attracted than it is here.

Legitimate Enterprise is not Starved by the Exportation of Capital.

The next question to consider is whether the exportation of capital starves legitimate enterprise in this country. It has been demonstrated that capital exported must necessarily be circulating capital, and it has been suggested that this exported circulating capital is nothing more than the surplus over and above that required for legitimate home enterprise. This, however, requires some little explanation, and the following arguments are put forward in support of the contention.

(1) The vast majority of the inhabitants of this country derive the bulk of their income from some sort of business enterprise carried on within the United Kingdom. This is an incontrovertible fact which no intelligent individual would attempt to deny, and is proved up to the hilt by the Inland Revenue returns. Surely, therefore, it is inconceivable that this huge majority should allow the main source of supply to run dry through want of capital merely for the sake of investing abroad.

(2) It is clear that, although the visible imports of Great Britain largely exceed the visible exports, nevertheless the total imports, including the invisible imports, must balance the total exports, including the invisible exports. No nation gives anything away, and, conversely, no nation receives anything for nothing; and therefore imports must necessarily be ultimately paid for by exports. An export of capital, as will be seen later, is not an export of money or gold, since usually the imports of bullion exceed the exports; but rather an export of goods which are not paid for by imports, but allowed to remain as a loan either to the nation receiving the goods or to some other nation. In saying this it must not be supposed that the exported goods go necessarily directly and immediately to the country to which the loan is made, or, in other words, to which the capital is exported; but the actual result is that goods and services exported exceed the imports of goods and services, and the excess is not paid for, but a debt created which is ultimately transferred over to permanent loan creditors. Consequently to balance the International Trade Accounts of Great Britain at any time, capital invested abroad during the period under review can only be conveniently dealt with under the heading of invisible imports. It is the capital which we put into the foreign department of the business of the nation, represented by the excess of debts due to us over liabilities incurred.

To illustrate this the following statement of the international transactions of Great Britain for the year 1910 is submitted. It is obvious that this statement is not absolutely accurate, but is merely an estimate based on the data available.

Statement of Total Imports and Exports for 1910.

Imports.

	£	£	£
Amounts due by us for :—			
Visible Imports :—			
Goods Imported	678,000,000		
Less Re-exported	103,000,000		
		575,000,000	
Bullion Imported	71,000,000		
Less Exported	64,000,000		
		7,000,000	
			582,000,000
Invisible Imports :—			
Interest due for foreign holdings of British securities, and earnings of foreign businesses in this country		15,000,000	
Capital invested abroad during year 1910 ..		168,000,000	
			183,000,000
			£765,000,000

Exports.

	£	£
Amounts due to us for :—		
Visible Exports :—		
Goods Exported		430,000,000
Invisible Exports :—		
Shipping, Freights, &c.	100,000,000	
Interest receivable on capital invested abroad and earnings of British businesses abroad	235,000,000	
		335,000,000
		£765,000,000

As the total imports visible and invisible balance the total exports visible and invisible, it follows that a reduction of imports must result eventually in a corresponding reduction of exports. It might be argued, of course, that a reduction in one class of invisible imports would be counter-balanced by an increase in some other class of invisible imports, or by an increase in the imports of commodities. This argument is not sound, however, for, as regards invisible imports, the total capital exported in any one year is so overwhelmingly huge in point of magnitude, when compared with all other invisible imports, as to render it wholly impossible for any material reduction in the one to be counter-balanced by a corresponding increase in the other.

As regards the increase in the imports of commodities, it is absurd to suppose that a wealthy country maintaining a policy of Free Trade does not obtain everything needful and in sufficient abundance in this direction. In fact, Tariff Reformers argue that our home manufacturers would be better off if some slight check was placed upon these wholesale imports. Further, since no nation will import more than it can profitably handle, it follows that a reduction of exported capital could not be counter-balanced by an increase in the imports of commodities.

It is sometimes suggested that a reduction in foreign investments would lead to increased enterprise in this country, and would enable British manufacturers (starved by the lack of capital) not only to supply the home market with commodities manufactured at present abroad and imported, but also to extend the exports of manufactured goods. This would have the effect of increasing the visible exports, reducing the invisible imports to the extent by which the exportation of capital was reduced, and increasing the visible imports by the difference between the two.

This argument is unsound, however, and is disproved by statistics. There is obviously a limit to the demands of the home market, whereas the possibility of expanding

the export trade of the country is practically limitless; but since exported goods consist very largely of imported goods, plus labour, it is clear that the imports will not expand to an equal value with an increase of exports.

Therefore the prosperity of the nation depends chiefly on whether we can continue to supply not only ourselves, but the world in general with commodities. It is clear that no nation can develop and prosper without benefiting the world in general, and it is also clear that no nation can develop without capital. If, then, Great Britain provides capital to enable another nation to develop, it does not require any great stretch of the imagination to realise that she is likely to derive more than an ordinary share in the prosperity which is to benefit the world in general.

In the first place, there is the interest on the capital, which must be paid for in commodities which Great Britain presumably requires; and, secondly, there is the indirect advantage which capital invariably commands.

At any rate, over a series of a few years it happens that, with the increase of foreign investment, there is a decrease in the excess by which the visible imports exceed the visible exports, and this is not due to a reduction of imported commodities, but chiefly to an increase of exported commodities. Conversely, with a reduction in foreign investment the excess of visible imports over visible exports increases, and this is due chiefly to a reduction in visible exports and not to an increase in visible imports. It thus appears that a reduction in exported capital would necessarily be counter-balanced chiefly by a reduction in exported commodities which would on net balance adversely affect the trade of the country.

The conclusion of these arguments, therefore, is that trade is supported and expanded by the exportation of capital, and any material reduction would lead to decreased prosperity.

Similarly, it is held by many that any material check on visible imports created by a tariff designed for the general protection of our manufacturers would necessarily result in a reduction of exports visible or invisible. This follows as a corollary to the economic law that a contraction of imports must result in a corresponding contraction of exports and *vice versâ*, and forms the basic argument of Free Traders that Protection would adversely affect the nation on net balance. Why this should remain to so many a rejected theory, when the co-relation existing between exported goods and exported capital is recognised as an established fact, is a question which up to the present has met with no very convincing answer.

It is quite possible that Great Britain might make better use of her foreign investments by insisting upon greater control in order to further expand her foreign trade, but this does not affect the principles under review, and is moreover a matter wholly outside the scope of this paper.

It might not be out of place, however, to call attention, in passing, to the fact that Great Britain's foreign investments are distributed throughout the world in a most judicious manner. A very large proportion is invested in countries from which we obtain our supplies of raw material and food; whereas the amount invested in European countries which are generally regarded as our trade rivals is comparatively small, and is decreasing rapidly. Thus considerably more than half the whole total of Britain's capital abroad is invested in India and the Colonies, and the remainder is spread over the entire face of the globe. The result is a strong financial tie between Great Britain and her possessions; and, further, the wide geographical distribution of the investments helps to maintain the average capital value thereof.

Next to Great Britain, France stands as the greatest foreign lending nation of the world. Her investments are small compared with ours, and are distributed within a relatively restricted area. This is regarded by many as a dangerous policy, for the reason that war, or some other

disaster, within this area would affect the capital value of the investments to an enormous extent, besides restricting the whole of the trade created by the investments.

On the other hand, no one who has travelled in Russia will deny that France has made the utmost use of her investments to expand her trade and commerce.

The Export of Capital is not an Export of Money or Gold.

The fact that this country puts a large amount of money into a foreign or colonial Government loan, or subscribes to a new issue of a foreign or colonial railway, does not mean that the amount of money subscribed or agreed to be subscribed by the various allottees of the loan or issue will go out of this country in specie. An outflow of gold may follow the flotation of a foreign or colonial issue, but this is attributable to the working of the foreign exchanges; and though the state of the exchanges is bound to be affected by the exportation of capital, this will not as a rule have the effect of causing a gold movement.

The reason for this is not far to seek. London has been for many years, and still is, the world's centre of money and capital, and, in spite of the facilities of commerce which modern science has brought into being, the importance of a bill on London for the settlement of international transactions is still paramount.

While this is the case, London, by means of the control of the bank rate of the Bank of England, can send its surplus capital out of the country without depleting its store of gold. But if the exportation of capital does not involve an export of gold, what result follows from the subscription to a foreign or colonial issue? This is difficult to demonstrate with cast-iron accuracy, for the effect that follows as a result of the contribution alone may be lost in the complex maze of all those intricacies which go to determine the foreign exchanges; but it may be said that where the borrowing country is so indebted to this country that the balance of indebtedness is in favour of this country, the result of lending money in its

international effect is merely a definite extension of credit in respect of a sum equal to the loan.

How an Export of Capital is Effected.

(*a*) *Collection of the Money.*

It will be understood that the raising of a foreign or colonial loan in this country is principally carried out by a transfer of credit. A certain amount of money may be paid to the bankers for the purpose of applications, but as a rule these applications will be covered by cheques. The various applicants will draw cheques on their own bankers, and these bankers will honour the cheques through the Clearing House when they are presented by the collecting banker; and the net result is a shifting of credit, in the books of the Bank of England, from the various banks on which the cheques were drawn to the bank to which the cheques were paid.

All the various applicants have reduced their own credit at their bankers, and those bankers have reduced their credit at the Bank of England; while the collecting bank acting for the foreign or colonial Government concerned has had its credit increased by the Bank of England, and has correspondingly increased the sum standing to the credit of its foreign or colonial customer for which the loan was issued. Yet it may be said that the whole transaction *per se* has hardly involved the movement of a single coin; it is a mere shifting of credit, resting for its effectiveness on the law of contract, which has been finally carried through at the Bank of England by means of our cheque system.

(*b*) *Discharge of the Contractual Obligation to the Borrowing Country.*

Having raised the loan, it becomes necessary for the collecting banker or financier to settle with the Government, authority, or company for which he has acted as agent. It might be said, Why not draw the money in gold out of the Bank of England and ship it out? The answer to this is, that there are readier means of effecting

the settlement than by sending gold—methods which are more effective and infinitely cheaper; and a Government or other authority that has raised a loan at a competitive rate of interest, or at a discount, or possibly at a large expenditure on underwriting, does not wish to add unnecessarily to the expense attached to the borrowing transaction. The result of sending gold when the operation is not justified by the exchanges—which in this country of free gold would be quite possible—would be so peculiar that it is worth consideration.

Firstly, when the gold left this country, gold being scarce, the Bank of England would raise the bank rate. Market money being scarce, the bank rate would become effective as the market rate, and would continue high—being raised whenever necessary—until an equal quantity of gold had been attracted back.

In the meantime, if the balance of indebtedness was against the country which had so calmly walked off with the gold, bills on London in that country would be at a premium. If the rate rose above the specie point gold would at once be exported to us by that country in settlement of the trade differences.

Such a proposition is practically an absurdity, for our bankers would lend no countenance to the subsequent financing of a country that so unnecessarily disturbed our money market.

The question is still to be answered, however, If gold is not sent out of the country, how is the settlement effected? A consideration of the following cases may prove interesting :—

(1) Where the people of the borrowing country are largely indebted to the people of the lending country.

(2) Where the people of the borrowing country are largely indebted to the people of various other nations.

(3) Where railways are to be constructed in the borrowing country.

(4) Where war material is purchased either from—

(*a*) The lending country;

(*b*) Some other country.

To clearly show what is done, the multifarious and ever-changing factors which go to make up the balance of indebtedness will be eliminated and simple cases quoted; and although the issues cannot in practice be narrowed down to the extent demonstrated in these cases, they will serve to correctly illustrate the theory on which the transactions are actually conducted.

(1) *Where the People of the Borrowing Country are largely Indebted to the People of the Lending Country.*

Assume that the balance of indebtedness between England and Japan is represented by the following facts. T. Nogi, of Japan, owes J. Bull, of England, £100,000; N. Togo, of Japan, owes R. Davidson, of England, £100,000; and M. Komura, of Japan, owes A. Thomas, of England, £100,000. If these are the only outstanding transactions at the moment there is a balance of indebtedness against Japan and in favour of England of £300,000.

The Japanese Government issues a loan of £300,000 in England, which is fully taken up, the Yokohama Specie Bank thereby obtaining an additional credit of £300,000 at the Bank of England.

J. Bull, R. Davidson, and A. Thomas each draw on their Japanese debtors for £100,000; the Yokohama Specie Bank buys up the bills, and the English creditors are settled with by the purchase. The bills are forwarded to the Japanese head office of the Yokohama Specie Bank, which collects the money from the Japanese debtors.

From this it is evident that the individual contributors to the loan issue have taken the place of the English creditors, and the Japanese Government has taken the place of the Japanese debtors, and yet no money has passed. But there is this difference in the position. England has invested a portion of her surplus capital, and will get a good return upon it, in addition to the trade advantages which invariably fall to the lot of the big creditor; while Japan has prevented the depletion of its own gold resources, and by the extension of credit to the term of the loan, provided the country with an increase of capital, thus preventing the capital invested in its own trade from becoming restricted.

Illustration.

JAPAN.	ENGLAND.
A owes £100,000 to	X
B do. do.	Y
C do. do.	Z

JAPAN borrows £300,000 from ENGLAND

Japanese Bank in Japan receive from their London Branch the bills drawn by X, Y, and Z on A, B, and C, and forthwith collect the same.—Thus Japan takes the place of A, B, and C.	Japanese Bank in London receives from S.P. (Sundry Persons) £300,000, the proceeds of the Loan raised in England. With the money so received they buy up. X's Bill on A, Y's Bill on B, Z's Bill on C } and send these Bills to the Head Office in Japan. Thus S.P. (Sundry Persons) take the place of X, Y, and Z.

Thus Japan has borrowed £300,000 from England. All the traders have been paid and Sundry Persons in England have invested a portion of their surplus wealth at a good rate of Interest in a Japanese Loan.

(2) *Where the People of the Borrowing Country are largely Indebted to the People of various other Nations.*

Assume that T. Nogi, of Japan, owes H. Muller, of Germany, £100,000; N. Togo, of Japan, owes C. Rubenstein, of Germany, £100,000; and M. Komura, of Japan, owes H. Andre, of France, £100,000. If these are the only outstanding transactions at the moment, there is a balance of indebtedness against Japan of £300,000, and in favour of Germany and France to the extent of £200,000 and £100,000 respectively.

Now, if a loan of £300,000 is raised here, the head office of the Yokohama Specie Bank in Japan can sell to the Japanese traders bills drawn on their London branch, and these bills on London can be forwarded to the German and French creditors. The German and French creditors can sell the bills to purchasers in Germany and France who are desirous of settling their own debts in London, and these purchasers will forward the bills to their London creditors, who will then ultimately collect the money.

Thus the result is a mere shifting and extension of credit, with the same consequences.

Illustration.

JAPAN.	GERMANY.	FRANCE.	ENGLAND.
A owes £100,000 to	D		
B do.	E		
C do.		F	
	G owes £100,000 to		H
	K do.		L
		M owes £100,000 to	P
	JAPAN borrows £300,000 from ENGLAND.		
Japanese Bank in Japan sells to A, B, and C, bills drawn on their London Branch, which A, B, and C forward to D, E, and F respectively. Thus Japan takes the place of A, B, and C.	D and E sell the bills received from A and B to a Bill Broker in Germany, who in turn sells the same to G and K. G and K send the Bills to H and L, their creditors in England.	F sells the bill received from C to a Bill Broker in France, who in turn sells it to M. M sends the bill to P, his creditor in England.	Japanese Bank in London receives from S.P. (Sundry Persons), £300,000, and with this money meet the Bills drawn on them by the Head Office in Japan and presented by H, L, and P. Thus S.P. (Sundry Persons) take the place of H, L, and P.

Thus Japan has borrowed £300,000 from England. All the traders have been paid and Sundry Persons in England have invested a portion of their surplus wealth at a good rate of Interest in a Japanese Loan.

(3) *Where Railways are to be Constructed in the Borrowing Country.*

Suppose money is required for the purpose of railway construction by the Indian Government, and a Government loan of £1,000,000 is raised for the purpose. As a result of the issue of the loan the Bank of England transfers £1,000,000 from the credit of the various banks to the credit of the Secretary of State in Council for India.

In this case the procedure would be strongly affected by the local conditions in India, where the taxes are collected in silver.

Normally the Indian Government has to pay to the British Treasury about £20,000,000 a year for interest on loans and for civil and military services rendered. As an accumulation of taxes for this purpose is from time to time credited to the English Government at the State Treasuries of India, the Secretary of State advertises that he will receive tenders for the purchase of bills for the sum available. The Bills so sold to British traders are paid for by the transfer of credit here from the purchasers to the Government, this being equivalent to a payment in gold. The purchasers of the bills send them out to their Indian creditors, who get them honoured at the State Treasury of Calcutta, Madras, or Bombay, as the case may be.

Thus, in ordinary circumstances, the Indian Government collects the taxes in silver and pays a portion of them to the Crown in gold, without any specie leaving that country.

Now, when the loan for £1,000,000 has been raised, the Secretary of State for India is no longer (to the extent of the amount of the loan raised) under the obligation of selling bills on India in order to get the money due to the Crown; instead, to the extent of this sum, he has merely to set off the gold here against an equivalent sum in silver in the Indian Treasuries, and the matter is thus adjusted.

If, instead of the Government raising the loan, it is raised by an Indian railway company, that company will doubtless have its head office here. The construction payments for materials and wages will be settled or raised by means of bills on London, which the head office of the company will meet.

In such a case as this a great part of the money will be spent in this country on the purchase of the materials, so that the loan of capital in reality has the effect of expanding trade and increasing the facilities for the output of labour, in addition to the other mutual advantages which an investment of surplus capital brings to us.

(4) *Where War Material is Purchased either from—*

(*a*) *The Lending Country;*

(*b*) *Some other Country.*

(*a*) Where war material is purchased from the lending country, it is obvious that the money contributed must remain in the lending country, where it will be utilised in payment of the material and labour put into the implements purchased.

Suppose Japan had two cruisers built here by the A. Ship Building Co., and cannot afford to meet the cost out of revenue; then the money or part of it which was collected by the London bank will be paid out to the A. Ship Building Co., in exchange for the cruisers. The Government of Japan has prevented too severe a drain from being placed on the capital in its industrial enterprises, by creating a debt to a number of English individuals. As against that debt they have two cruisers; while English workers have had increased employment, English brains have had additional experience, during the building of the ships England has had increased security, and in addition English subjects have the advantage of a safe and remunerative outlet for surplus capital.

(*b*) Where the war material is purchased from some other country the circumstances may not be so favourable to England; but nevertheless gold will not leave this country by reason only of the transaction.

Assume that the Government of Brazil buys a gun from Herr Krupp of Germany for £2,000; that John Jones of London is owed £2,000 by J. Kreisler of Germany, and that the Brazilian Government has raised a loan in London for an equivalent sum. Here the matter is easily settled by exchange.

John Jones, of London, draws on J. Kreisler, of Germany, and the bill is purchased by the London Collecting Bank on behalf of the Brazilian Government and forwarded to Herr Krupp. Herr Krupp gets his money from J. Kreisler; John Jones gets the money from the bank which is the agent of the Brazilian Government; the Brazilian Government gets the gun, and the subscribers to the loan get agreed interest on their contributions and the obligation of the Brazilian Government to repay at a certain time.

The procedure for one gun is the procedure for a hundred, and though it is not contended that we should be wise to provide a foreign loan for the purchase of war material from a third power, the direct effect on England's store of gold would not, except under abnormal circumstances, be noticeable.

As a matter of fact, England lends very little which does not produce effects of direct advantage to us.

Leaving aside the sums which have been lent to the British Dominions beyond the seas, which total over £1,600,000,000, the bulk of Great Britain's foreign investments are with the United States of America, the Argentine Republic, and Brazil.

From the United States of America we obtain vast quantities of food stuffs and raw material directly required to enable our manufactures to be carried on. As regards

the Argentine Republic and Brazil, the bulk of this money is invested to enable these countries to be developed, and our manufactures have in consequence benefited enormously thereby; and, incidentally, a considerable amount of the money so invested has been expended in this country for the building of ships of war, and in other manufactures.

The Effect of Exporting Capital to other Countries.

In conclusion, it may be interesting to briefly deal with the effect on this country of exporting capital to other countries, by summarising the advantages and disadvantages of so doing.

Advantages.

(1) *Increase of Trade.*

It is submitted that the co-relation existing between the export of capital and the export of goods is more than a theory, and is actually an established fact. All nations prefer, as nations, to pay their debts, including interest on capital, in goods rather than in gold. This being so, an increase in trade is inevitable.

(2) *Prestige.*

In an ordinary business the largest creditor is usually the person to whom some little additional attention is shown, and very often it happens that if there is a question as to which of two persons the business shall be given, the larger creditor obtains the preference. So it is with a nation. The trade results are always improved, even by reason only of this prestige.

(3) *Pacific Influence upon Politics.*

If war is ever to be abolished between civilised countries, the chief factor in bringing about this desirable state of affairs will undoubtedly be international commerce; for with such tremendous interests created both by loans and by trade expansion, war must become increasingly distasteful. If a war between two powers would automatically lead to the ruin of a large proportion

of the traders in both countries, it is not difficult to suppose that public opinion in those countries would call for a pacific settlement.

(4) *The Outlet for the Accumulation of Wealth.*

If it were not for the exportation of capital, surplus wealth would be turned into unproductive channels; whereas it is, when so invested, earning a good rate of interest and operating for the general benefit of mankind.

(5) *To Facilitate the Importation of Food and Raw Materials.*

The production and transport of these necessary commodities has been immeasurably increased and cheapened by means of the capital invested abroad, and when it is remembered that three-fourths of the raw stuff markets of the world are located in England, it can hardly be argued that our capital has been misspent.

(6) *The Centre of the Money Market.*

The fact that London is the centre of the world's money market is a matter of supreme importance to Great Britain, and it is submitted that the exportation of capital has played no unimportant part in the maintenance of this state of affairs.

(7) *Outlet for the Surplus Population.*

The exportation of capital has opened up large fields for the surplus population of this country, and a very superficial consideration will serve to show that those who seek their fortunes in distant lands follow British capital. As an illustration of this, the recent rubber boom may be cited, for large numbers of Englishmen have gone out to the rubber-producing countries, in some capacity or other, within the last year or so.

Disadvantages.

(1) *The Increased Cost of Credit at Home.*

It is a fact patent to all that gilt-edged securities have suffered very considerable depreciation in recent years, and there is no doubt that this has been caused to a large extent by the exportation of British capital. It is obvious that if a higher rate of interest can be obtained abroad with almost equal security, the tendency is to take the higher rate of interest, and thus the home securities producing lower rates of interest are to a certain extent neglected, which results in a decreased capital value.

In dealing with this it must be remembered that the Colonial Stock Act, 1900, threw into the Trustee Securities List large numbers of Colonial loans bearing a higher rate of interest than trustee securities at home. Whether this was a wise action on the part of the Government of the day or not, or whether Colonial loans would not have been equally successful without trespassing on the grounds of the trustee securities of this country, is a matter outside the scope of this paper; but the fact remains that large numbers of trustees who invested in Colonial loans would undoubtedly be holding home trustee securities at the present time, and this would have helped to maintain the capital value of such securities in this country.

(2) *The Gold Reserves.*

Exported capital cannot be called in at a moment's notice; in fact, the operation takes many years if the sum to be transferred is of any real magnitude. The question therefore arises as to whether our gold reserves are adequate, considering the ever-increasing liabilities which we are assuming, taking into account the possibility of war. We depend in such emergencies almost entirely on the smooth working of our bank rate to attract gold to this country, but it is generally conceded amongst financiers that we are risking somewhat too much in so doing.

(3) *The Necessity of a Supreme Navy.*

The gigantic interests which this country has in distant lands necessitates the upkeep of an irresistible Navy to guard our foreign possessions, and to preserve the capital value of our investments.

Conclusion.

It is thus seen that there are advantages and disadvantages to the exportation of capital, and we have to ask ourselves which outweighs the other. It is not a question to be answered by looking to Mr. Jones and ascertaining how it affects his pocket, or by examining the past and present turnover of any particular trade or group of trades. The question is, How does it affect the country on net balance?

Personally, I think that the exportation of capital is necessary if England is to maintain her supremacy.

By all means let us guard against difficulties which arise, but let us not forget that England depends for her prosperity on her manufacturing, her financial, her commercial, and her shipping interests, each and all of which are maintained and increased by her exportation of capital.

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